

## Message Text

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UNCLAS SECTION 1 OF 2 OTTAWA 2354

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TAGS: ECON, EFIN, ENRG, CA

SUBJECT: FINMIN TURNER PRESENTS JUNE BUDGET

POUCHED TO ALL CONSULS IN CANADA

1. SUMMARY: MINFIN TURNER PRESENTED NEW FEDERAL BUDGET FOR  
FY 75-76 IN HOUSE OF COMMONS ADDRESS EVENING OF JUNE 23, 1975.  
REJECTING COMPULSORY WAGE AND PRICE CONTROLS, TURNER OPTED  
FOR SOME FISCAL RESTRAINT, RESTRICTIONS ON PUBLIC SERVICE EXPENDITURE  
S,  
NEW BUSINESS INVESTMENT TAX CREDITS, MORE HOUSING INCENTIVES,  
INCREASED INCOME TAXES FOR HIGHER-INCOME TAXPAYERS, LOWERED  
SALES TAXES AND LOWERED FEDERAL RESOURCE TAXATION. PRICE OF CRUDE  
OIL AND EQUIVALENTS, ACCORDING TO TURNER, WILL RISE BY  
C\$1.50 TO C\$8.00 PER BARREL ON JULY 1 AND PRICE OF NATURAL  
GAS IN ALBERTA, BASED ON INCREASE OF TORONTO CITY GATE, WILL  
BE INCREASED FROM APPROXIMATELY C\$ .82 TO C\$1.25 PER 1,000  
CUBIC FEET ON NOVEMBER 1. SPECIAL EXCISE TAX OF C\$ .10 PER GALLON  
WILL BE LEVIED EFFECTIVE TONIGHT ON GASOLINE FOR PERSONAL USE AND  
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IMPOSED ON GAS PRODUCERS AND IMPORTERS. TURNER ALSO TABLED TWO DIS-

CUSSION PAPERS ON REVIEW OF COMMODITY TAXATION AND INCOME TAX AS APPLIED TO CHARITIES. INITIAL REACTION FROM PC OPPOSITION SPOKESMAN (STEVENS) WAS GENERAL DENIGRATION OF TURNER'S PERFORMANCE IN FINANCE PORTFOLIO ("JUST ANOTHER BUDGET BY THE SAME OLD MINISTER DURING A LONG REIGN OF ERROR"). LOCAL TV COMMENTATORS TERMED BUDGET "CONSERVATIVE" AND "FINE TUNING OF ECONOMY." END SUMMARY.

2. TURNER PREFACED BUDGET PROPOSALS WITH REVIEW OF ECONOMIC CONDITIONS SINCE HIS NOVEMBER PRESENTATION. HE SAID "WORLD RECESSION HAS PUT A BRAKE ON OUR OWN ECONOMY AND WE HAVE THUS BEEN COMPELLED TO SCALE DOWN OUR PROJECTIONS FOR CANADIAN ECONOMIC GROWTH THIS YEAR. BUT WE HAVE ESCAPED THE FULL IMPACT OF THE DEEP RECESSION IN THE UNITED STATES." TURNER THEN SPOKE OF HIS SEARCH FOR A "NATIONAL CONSENSUS" ON WAGES AND PRICES, AND HE ADMITTED "CONSENSUS HAS NOT BEEN REACHED."

3. IN OUTLINE OF INTERNATIONAL ECONOMIC DEVELOPMENTS, TURNER POINTED OUT "BRIGHTER ASPECTS" DEALING WITH "SUCCESS OF INTERNATIONAL MONETARY SYSTEM IN COPING WITH MASSIVE BALANCE OF PAYMENTS PROBLEMS" CAUSED BY INCREASED WORLD OIL PRICES. TURNER CLAIMED SOME PROGRESS MADE AT INTERIM COMMITTEE MEETING OF IMF THIS MONTH AND SAID HE "SPENT GOOD DEAL OF TIME ON BEHALF OF CANADA IN THE INTERNATIONAL SPHERE", SINCE "CANADIANS DEPEND FOR OUR PROSPERITY ON INTERNATIONAL TRADE AND A STABLE WORLD." HE PRAISED GOVERNMENTS WHO RESISTED TEMTATION TO IMPOSE "NEW RESTRICTIVE TRADE POLICIES" AS A RESULT OF WORLD ECONOMIC SLOW-DOWN AND SAID CANADA SUPPORTED EXTENSION OF OECD MEMBERS' PLEDGE AGAINST USE OF TRADE RESTRICTIONS FOR SOLVING B/P PROBLEMS. TURNING TO U.S. ECONOMY, TURNER SAID "SHARPNESS OF U.S. DECLINE HAS BEEN UNEXPECTED. THIS HAS ADVERSELY AFFECTED THE PERFORMANCE OF THE INDUSTRIALIZED WORLD." HE ADDED THAT U.S. ECONOMY EXPECTED MOVE OUT OF RECESSION LATTER HALF OF THIS YEAR.

4. IN DISCUSSING CANADIAN ECONOMY, TURNER ACKNOWLEDGED UNCLASSIFIED

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SLOW-DOWN AND DECLINE IN REAL OUTPUT. HOWEVER, HE CONTRASTED DEEP RECESSION OF U.S. WITH MUCH SMALLER DECLINE IN CANADIAN OUTPUT AND UNEMPLOYMENT RATE HERE 2 PERCENTAGE POINTS LESS THAN U.S. TURNER ATTRIBUTED BETTER PERFORMANCE TO "STRONGER AND MORE SUSTAINED INCREASE IN BUSINESS INVESTMENT", RAPID GROWTH IN EMPLOYMENT, INCREASED NUMBER OF FAMILIES WITH TWO OR MORE PAY CHECKS AND INDEXING OF PERSONAL INCOME TAXES AND

SOCIAL SECURITY BENEFITS. TURNER CLAIMED WORLD RECESSION HAS HAD "DAMPENING EFFECT ON ECONOMIC ACTIVITY IN CANADA BY RESTRICTING THE GROWTH OF OUR EXPORTS." ECONOMIC SECTORS SINGLED OUT BY TURNER AS BEING "PARTICULARLY HARD HIT" WERE AUTOMOTIVE, WOOD PRODUCTS, PRIMARY COMMODITIES AND RESIDENTIAL CONSTRUCTION. TURNER THEN DWELT ON INCREASE IN INFLATION COSTS WHICH "THREATEN TO ERODE THE COMPETITIVE POSITION OF OUR INDUSTRIES BOTH AT HOME AND ABROAD," AND STATED THAT COMPETITIVE POSITION "IS BEING MOST SERIOUSLY UNDERMINED" IN RELATION TO U.S. HE STRESSED SURGE OF WAGE AND SALARY INCREASES AS PRINCIPAL FACTOR IN DECLINING COMPETITIVE POSITION.

5. IN DISCUSSION OF POLICY OPTIONS, TURNER SAID GOC REJECTED IN "MOST CATEGORICAL MANNER" POLICY OF "DELIBERATELY CREATING, BY SEVERE MEASURES OF FISCAL AND MONETARY RESTRAINT WHATEVER LEVEL OF EMPLOYMENT IS REQUIRED TO BRING INFLATION TO AN ABRUPT HALT." INSTEAD GOC EMBARKED ON SERIES OF CONSULTATIONS IN ORDER OBTAIN CONSENSUS EXERCISE, ACCORDING TO TURNER, WAS "INCREASED PUBLIC AWARENESS AND UNDERSTANDING". AS REGARDS STATUTORY CONTROLS OVER PRICES AND WAGES, TURNER CLAIMED GOC GAVE "CAREFUL CONSIDERATION" TO THEIR IMPOSITION. MANDATORY CONTROLS WERE REJECTED BECAUSE "PUBLIC CONVICTION OF THE NEED FOR SUCH ACTION ...HAS NOT BEEN REACHED." MORE STIMULATION THAN THAT PROVIDED IN THE NOVEMBER BUDGET WAS NOT NEEDED, TURNER SAID, AND THE POLICY OPTION CHOSEN WAS "GREATER RESTRAINT" OVER FEDERAL GOVERNMENT SPENDING.

#### 6. SPECIFIC PROPOSALS

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#### A. GOVERNMENT EXPENDITURES

TARGET OF CUTS THIS FISCAL YEAR IS ONE BILLION DOLLARS. REDUCTIONS TOTALING C\$100 MILLION ARE BEING MADE IN PLANNED CAPITAL EXPENDITURES OF DEPARTMENTS OF TRANSPORT, DEFENSE, PUBLIC WORKS, ENVIRONMENT AND OTHERS. REDUCTIONS TOTALING C\$250 MILLION BEING

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MADE IN PLANNED GRANTS AND CONTRIBUTIONS OF DEPARTMENTS OF EXTERNAL AFFAIRS; INDUSTRY, TRADE AND COMMERCE; SECRETARY OF STATE, AND OTHERS. IN NON-BUDGETARY FIELD, PLANNED LOANS, INVESTMENTS, AND ADVANCES TO BE REDUCED BY ABOUT C\$350 MILLION; CROWN CORPORATIONS AND AGENCIES TO BE AFFECTED INCLUDE PETRO-CANADA, FEDERAL BUSINESS DEVELOPMENT BANK, FEDERAL MORTGAGE EXCHANGE CORPORATION AND FARM AND CREDIT CORPORATIONS. IN ADDITION, DEPARTMENTS AND AGENCIES ARE BEING REQUIRED TO CUT PROGRAM EXPENDITURES BY C\$130 MILLION. TREASURY BOARD IS DIRECTING DEPARTMENTS TO RESTRICT SALARY BUDGETS IN ORDER REDUCE RATE OF INCREASE OF PUBLIC SERVICE MAN-YEARS FROM 4.1 PERCENT TO 3.1 PERCENT. ALTHOUGH COMPARABILITY OF CIVIL SERVANTS WAGES AND SALARIES WITH PRIVATE SECTOR WILL BE RETAINED, GOC "IS NOT PREPARED TO GRANT INCREASES THAT ARE UNWARRANTED BY ANY REASONABLE STANDARD". HOSPITAL INSURANCE AND DIAGNOSTIC SERVICES ACT WILL BE AMENDED TO "PROVIDE BETTER SERVICES AT A LOWER

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COST", AND CEILING WILL BE PLACED ON GROWTH OF FEDERAL CONTRIBUTIONS TO PROVINCES FOR MEDICAL

CARE. SOME CHANGES WILL BE MADE IN UNEMPLOYMENT INSURANCE SYSTEM IN ORDER "INCREASE INCENTIVE TO WORK, ADAPT COVERAGE AND BENEFIT LEVELS MORE TO CURRENT SOCIAL CIRCUMSTANCES, AND DEAL MORE FAVORABLY WITH CERTAIN HARDSHIP CASES."

#### B. BUSINESS INVESTMENT

AS TEMPORARY EXTRA INCENTIVE FOR INVESTMENT FOR NEW PRODUCTIVE FACILITIES, TURNER PROPOSED INTRODUCING INVESTMENT TAX CREDIT OF 5 PERCENT OF TAXPAYERS' INVESTMENT IN "NEW BUILDINGS, MACHINERY AND EQUIPMENT WHICH ARE FOR USE IN CANADA PRIMARILY IN A MANUFACTURING OR PROCESSING BUSINESS, PRODUCTION OF PETROLEUM OR MINERALS, LOGGING, FARMING OR FISHING," COSTS OF NEW, UNUSED MACHINERY AND EQUIPMENT ACQUIRED AFTER JUNE 23, 1975 AND BEFORE JULY 1977 WILL BE ELIGIBLE AS WILL ENTIRE COST OF BUILDINGS COMMENCED DURING SAME PERIOD.

#### C. HOUSING INCENTIVES:

COMMITMENT AUTHORITY FOR HOUSING ALREADY PROVIDED TO CENTRAL MORTGAGE AND HOUSING CORPORATION TO BE INCREASED BY C\$200 MILLION. TEMPORARY INCREASE IN GRANTS FOR HOUSING FINANCED BY PRIVATE SECTOR INCREASED FROM MAXIMUM OF C\$600 TO C\$1,200 FOR OWNER-OCCUPIED HOUSING AND FROM MAXIMUM C\$600 TO C\$900 FOR RENTAL ACCOMODATIONS.

#### D. DIRECT EMPLOYMENT PROGRAM

ALLOCATIONS FOR DIRECT EMPLOYMENT PROGRAM WILL BE C\$450 MILLION OVER NEXT 2 YEARS, WITH DISBURSEMENT THIS YEAR OF C\$150 MILLION. PROGRAM TO CONSIST OF OCCUPATIONAL TRAINING, MAPOWER PLACEMENT AND MOBILITY, NEW LOCAL INITIATIVES EMPLOYEMENT PROGRAM, SUMMER WORK PROGRAM FOR STUDENTS IN 1966, AND LABOR INTENSIVE WORKS AND ACTIVITIES.

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#### E. PERSONAL INCOME TAX

INCOME TAX REDUCTIONS IN LAST NOVEMBER BUDGET WILL BE ROLLED BACK SOMEWHAT FOR HIGHER INCOME BRACKETS, TO YIELD ESTIMATED C\$50 MILLION INCREASE IN FEDERAL REVENUE.

#### F. TARIFF SALES AND EXCISE TAXES

FREE ENTRY FOR PETROLEUM PRODUCTS, SCHEDULED TO EXPIRE ON OCTOBER 23, 1975, WILL BE EXTENDED UNTIL JUNE 30, 1977, AND FREE ENTRY FOR AIRCRAFT AND AIRCRAFT ENGINES NOT MADE IN CANADA, DUE TO EXPIRE END OF JUNE 1975, EXTENDED FOR ANOTHER YEAR. EFFECTIVE JUNE 23, REMAINING 5 PERCENT SALES TAX ON BUILDING INSULATING MATERIALS REMOVED, AND INCREASED EXCISE TAX IMPOSED ON WINE REDUCED TO ITS PREVIOUS LEVEL. EFFECTIVE AUGUST 1, 1975, EXISTING AIR TRANSPORTATION TAX IS INCREASED TO 8 PERCENT FROM 5 PERCENT ON CANADA-US FLIGHTS AND TO 10 PERCENT FROM 5 PERCENT ON FLIGHTS TO OTHER COUNTRIES. OTHER REDUCTIONS IN TARIFFS INCLUDED IN WAYS AND MEANS MOTIONS TABLED WITH BUDGET.

#### G. GOVERNMENT OF CANADA ANNUITIES

GOC WILL INTRODUCE LEGISLATION TO INCREASE RATE OF RETURN ON EXISTING GOVERNMENT OF CANADA ANNUITIES AND FURTHER SALE WILL BE DISCONTINUED.

#### H. OIL AND GAS PRICING

PHASED ADJUSTMENT TO HIGHER ENERGY PRICES WILL BE GOC POLICY IN ORDER "MODERATE THE SIZE OF THE ADJUSTMENT WHICH PARTICULAR REGIONS AND THE ECONOMY AS A WHOLE WILL HAVE TO MAKE." ON JULY 1, 1975 PRICE OF CRUDE OIL AND ITS EQUIVALENTS WILL RISE BY C\$1.50 PER BARREL TO C\$8.00 PER BARREL AND GOC IS ASKING INDUSTRY "TO REFRAIN FROM REFLECTING THIS INCREASE IN THEIR PRODUCTION PRICES UNTIL 45 UNCLASSIFIED

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DAYS HAVE PASSED." ON NOVEMBER 1, 1975, PRICE OF NATURAL GAS IN ALBERTA "WILL BE ESTABLISHED ON THE BASIS OF AN INCREASE IN PRICE OF THE TORONTO CITY GATE FROM THE CURRENT LEVEL OF APPROXIMATELY 82 CENTS (CANADIAN) TO C\$1.25 PER 1,000 CUBIC FEET. EFFECTIVE JUNE 23, 1975, SPECIAL EXCISE TAX OF C\$ .10 PER GALLON WILL BE IMPOSED ON PRODUCER OR IMPORTER OF GASOLINE IN MANNER SIMILAR TO GENERAL 12 PERCENT MANUFACTURERS' SALES TAX. THIS TAX EXPECTED TO YIELD REVENUES OF APPROXIMATELY C\$350 MILLION IN CURRENT FISCAL YEAR.

#### I. RESOURCE TAXATION

BASIC CORPORATE TAX RATE APPLICABLE TO RESOURCE PRODUCTION PROFITS TO BE REDUCED FROM 50 PERCENT TO 46PERCENT

SAME AS APPLYING TO MOST OTHER CORPORATE ACTIVITY, WHICH," AFTER DEDUCTING STANDARD PROVINCIAL ABATEMENT, WOULD RESULT IN NET FEDERAL RATE OF 36 PERCENT ON RESOURC PRODUCTION PROFITS IN 1976." NEW RESOURCE ALLOWANCE INTRODUCED, WHICH WOULD BE AN EXTRA DEDUCTION FROM INCOME EQUALTO 25 PERCENT OF PRODUCTION INCOME FROM PETROLEUM OR MINERAL RESOURCE. THESE NEW PROPOSALS WOULD BECOME EFFECTIVE ON JANUARY 1, 1976.

7. ALL MEASURES CONSIDERED, CASH REQUIREMENTS FOR THE 1975-76 FISCAL YEAR (EXLCUDING FOREIGN EXCHANGE TRANS-ACTIONS) ARE NOW FORECAST AT C\$5.3 BILLION COMPARED WITH C\$3 BILLION FORECAST INCLUDED IN NOVEMBER BUDGET. DEFICIT ON NATIONAL ACCOUNTS BASIS IN FY 75-76 NOW FORECAST AT C\$3.7 BILLION COMPARED WITH C\$635 MILLION IN FY 74-75. BUDGET DEFICIT FORECAST AT C\$3.175 BILLION FOR FY 75-76 AND TOTAL GOC FINANCIAL REQUIREMENTS FOR FISCAL YEAR FORECAST AT C\$4.968 BILLION. PORTER

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